



Served Dec. 16, 1996

Order 96-12-19

**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 16th day of December, 1996

INTRA-ALASKA CLASS SERVICE

MAIL RATES (Mainline Rate)

Docket OST-95-429

(Docket 38961)

**ORDER TO SHOW CAUSE ESTABLISHING
FINAL SERVICE MAIL RATES**

SUMMARY

By this order the Department proposes to establish new intra-Alaska mainline service mail rates for the first half of 1997. The rates that are currently in effect were established by Order 96-7-41, served August 5, 1996, for the last half of 1996, i.e., July 1 through December 31, 1996. Those rates will remain in effect as final rates until we issue an order setting new final rates for the first half of 1997. All interested persons are requested to show cause why the findings and conclusions contained in this order should not be adopted.

DISCUSSION

The proposed final rates, which are contained in Appendix A, reflect the usual application of cost adjustment factors, developed in Appendix B, to the basic mail rate structure established by the Civil Aeronautics Board in Order 82-11-23. The databases used to adjust those rates cover operations for the 12-month periods ended September 30, 1995, and 1996, as the basis for the rates for the first half of 1997. The databases used reflect the carriers' actual costs of operations for those 12-month periods.

The proposed final rates for the first half of 1997 are higher than the final rates for the last half of 1996 by the amounts shown in the following table:

	<u>Linehaul Charges</u>	<u>Terminal Charges</u>
Priority	12.7 %	10.1 %
Nonpriority	12.7 %	10.1 %

The combination of these proposed linehaul and terminal charges produces rates for the first half of 1997 that are 11.4 percent above the rates effective for the last half of 1996 for an average mail length of haul of 463 miles. The increases in both the linehaul and terminal charges reverses the decreases in rates over the past two rate periods (see Orders 95-12-32 and 96-7-8). In those cases, the decline in the linehaul and terminal expenses had been forecast to continue based on our current update methodology. However, in the current period expenses actually increased rather than continuing to decline. This had the effect of sharply increasing the rates. As we point out below, we are reviewing our current update methodology and we expect to complete that review soon.

Other Matters

We noted in previous Alaska mainline and bush mail rate orders (95-12-32, served December 29, 1995, and 96-2-2, served February 5, 1996), respectively, that the Department's staff had undertaken a comprehensive review of the Alaska mail rate methodology, with the participation of the U.S. Postal Service, the Alaska Air Carrier Association and individual Alaska carriers. The parties have submitted positions on the issues raised in that review, and a final report, including the staff's recommendations on all issues, is in the final drafting stages and will be distributed to the parties very shortly.

The parties appear to be in agreement on most issues. However, on the critical issue of whether to retain the existing rate update methodology or to adopt one of a number of alternatives that were discussed, the parties informally expressed a preference that the Department's staff present a specific recommendation and allow for responses to that recommendation. We are amenable to that procedural course, and will therefore defer implementation of any changes to the current ratemaking methodology pending the completion of such process.

The Department tentatively finds and concludes that:

(1) The fair and reasonable final rates of compensation to be paid in their entirety by the Postmaster General pursuant to the provisions of 49 U.S.C. 41901 for the transportation of mail by mainline aircraft¹ over intra-Alaska routes, the facilities used and useful therefor, and the services connected therewith, by each holder of a certificate authorizing the transportation of mail by aircraft (except Reeve Aleutian Airways)² for the

¹ Mainline aircraft are those having a maximum payload greater than 7,500 pounds.

² Rates applicable to mainline aircraft services performed by Reeve, or by other carriers providing mainline services in markets served by Reeve, are contained in Orders 81-1-41 and 88-4-56.

period beginning on the date of issue of a final Department order with respect to the rates proposed here through June 30, 1997, are those specified in the attached Appendix A; and

(2) The fair and reasonable final rates of compensation for the transportation of mail by aircraft in intra-Alaska markets (except those served by Reeve Aleutian Airways) for the period beginning July 1, 1997, until further order of the Department, shall be the final rates established for the period ending June 30, 1997.

ACCORDINGLY,

1. We direct all interested persons to show cause why the Department should not adopt the foregoing tentative findings and conclusions and fix, determine and publish the proposed final rates specified in Appendix A, for the period beginning with the date of issue of the final order pertaining to the rates proposed in Appendix A through June 30, 1997, or until further order of the Department, whichever occurs later;

2. We direct all interested persons having objections to the tentative findings and conclusions or to the rates proposed here to file a notice of objection within ten (10) days after the date of service of this order and, if such notice is filed, to file a written answer and any supporting documents within 30 days after the date of service of this order;

3. If no notice is filed, or if after notice no answer is filed within the designated time, or if a timely filed answer raises no material issue of fact, we will deem all further procedural steps waived. We then will enter a final order incorporating the tentative findings and conclusions set forth here and establishing the final rates specified in the attached Appendix A; and

4. We shall serve this order upon all parties to this proceeding.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)